

**IMPACT OF INTERNAL CONTROLS ON CASH FLOW
MANAGEMENT IN AN ORGANISATIONCASE STUDY: PRIDE
MICROFINANCE LTD.**

**ICUMAR CHRISTINE
BSP/7445/51/DU**

**A RESEARCH REPORT SUBMITTED TO KAMPALA INTERNATIONAL
UNIVERSITY IN PARTIAL FULFILMENT OF THE REQUIREMENTS FO
THE AWARD OF THE DEGREE OF BACHELOR OF SUPPLIES AND
PROCUREMENT MANAGEMENT**

JULY 2008

DECLARATION

I declare to the best of my knowledge and belief that this research study is as a result of my effort and it has never been submitted else where before for any award or publication.

Signed:

.....

Icumar Christine.

BSP/7445/51/DU

This research proposal has been submitted for examination with my approval as supervisor.

Signed

.....

Supervisor

Mr. Wanyera Francis

Date: 19th/07/08.....

ACKNOWLEDGEMENT

I would like to express my gratitude to the various people who contributed to the completion of this research. It is not possible to name each one but I am greatly indebted to every one of you

I acknowledge with sincere gratitude the valuable guidance given to me by my supervisor, Mr. Wanyera Francis for his time, presence and valuable advice, despite his busy schedule he was always available whenever I needed help

I am grateful to the management and staff of Pride Microfinance limited Uganda, without whose cooperation I would never have obtained the valuable information to complete this research. I wish to acknowledge the sleepless support and assistance rendered by Mr. Kihumuke Henry Araali Throughout the process of data collection

Special thanks go to my friends, Joseph, Christine, Justine, Natasha, Henry, Bashire, Kasozi and Scovia for their support and encouragement.

Finally, I would like to express my gratitude to my family for standing by me in whatever I undertake

DEDICATION

To my father Mr. Omachar Lawrence and my Mother. I am grateful for supporting me in my academic struggle and life

I must say that life does not offer so many chances and this sometimes makes one lose hope but with the support of Mummy and Daddy, you have given me the courage to believe in my self.

I cannot really explain what your support means to me and how I can repay you back other than to respect and honor you for supporting me and wish you enjoy the miracle of life through out your lives and may God bless you.

ABSTRACT

Internal controls are an important aspect of an entity as it ensures effective management and eventual achievement of an organization's goals. Internal controls on cash are instrumental in ensuring that a firm's cash inflows and outflows are well managed and that the firm's overall finances are satisfactory

The study impacts of internal controls on cash flow management in an organization were undertaken at Pride Microfinance Limited, located on Metropole House Plot 8-10 Entebbe Road Kampala.

The study was guided by the following objectives

1. To find out the existence of an internal control system on cash management in Pride Microfinance Limited
2. To Investigate the effectiveness of the internal control methods on cash management in Pride microfinance
3. To suggest recommendations on the improvement of internal control on cash management

To achieve the study objectives, the researcher collected data from both primary and secondary sources. This data was obtained from accounting manuals, records and annual reports and also by the use of questionnaires, interviews, and observation of the activities and trend of events in the company. Thirty five respondents were selected from the company as a representative sample.

TABLE OF CONTENTS

Declaration.....	i
Acknowledgement.....	ii
Dedication.....	iii
Abstract.....	iv

CHAPTER ONE

1.0	Introduction.....	1
1.1	Background of the study.....	1
1.2	Background of the case study.....	1
1.3	Statement of the problem.....	2
1.4	Purpose of the study.....	2
1.5	Objective of the study.....	3
1.6	Research questions.....	3
1.7	Significance of the study.....	3
1.8	Scope of the study.....	4
1.9	Conceptual Frame work.....	4

CHAPTER TWO

2.0	Literature review.....	6
2.1	Introduction.....	6
2.2	Internal control systems.....	7
2.2.1	Methods of internal controls.....	7
2.2.2	Internal control measures.....	8
2.2.3	Positive impacts of internal controls.....	8
2.3	Cash management.....	9
2.3.1	Internal controls on cash.....	9
2.3.2	Internal controls on receipts.....	9
2.3.3	Internal controls and payments.....	10
2.3.4	Internal control on balances.....	10
2.4	Negative impacts of internal controls.....	11

2.5	Evaluation of internal controls.....	12
2.6	Summary.....	12

CHAPTER THREE

3.0	Research methods.....	13
3.1	Introduction.....	13
3.2	Research design.....	13
3.3	Sample and Sampling Design.....	13
3.3.1	Target population.....	13
3.3.2	Sample size.....	13
3.3.3	Sampling design.....	13
3.4	Data collection.....	13
3.4.1	Sources of data.....	13
3.4.2	Data collection Instruments.....	14
3.5	Data processing and analysis.....	14
3.6	Constraints during data collection.....	14

CHAPTER FOUR

4.0.	Findings and discussion	15
4.1.	Introduction.....	15
4.2.	Findings on the existence of internal control systems.....	16
4.2.1.	Organization.....	16
4.2.2.	Segregation of duties.....	19
4.2.3.	Authorization and approval.....	21
4.2.4.	Man power.....	21
4.3.	Findings on the effectiveness of internal controls on cash.....	22
4.3.1	Receipts.....	22
4.3.2.	Payments.....	24
4.3.3.	Balances.....	25
4.3.4	Identification of individuals.....	26
4.3.5	Cheque books.....	27
4.3.6	Cash withdraw.....	28

4.4.	Mitigation measures in place.....	29
4.4.1	Signatories.....	29
4.4.2.	Networking.....	29
4.4.3.	Access of information.....	29
4.4.4.	Valid identity cards.....	29

CHAPTER FIVE

5.0.	Summary, conclusion, and recommendation.....	30
5.1.	Introduction.....	30
5.2.	Summary.....	30
5.3.	Conclusion.....	30
5.4.	Recommendations.....	32
5.5.	Suggested areas of further study.....	33

References.....	34
------------------------	-----------

Appendices

Appendix 1: Organizational chart.....	35
Appendix 2: Questionnaires.....	36

CHAPTER ONE

INTRODUCTION

1.1. Background to the study.

Internal control have always been an important element of any organizational financial and operating structure in the 1990's concerns about fraudulent financial reporting resulted in the formation of a group that started studies in internal controls. The name of the group is Committee of Sponsoring Organizations (COSO) developed a report that defined internal control and identified five components of internal control such as; Environmental control, Risk management, Information and Communication.

Inspire of the internal control systems being an important element of the organizations, Microfinance in Uganda operations have more often been characterized by ineffective and inefficient operations, non compliance with laws, regulations, policies and unreliable, inaccurate and incomplete financial reports resulting from weak and non-existent internal control systems.

These will be manifested in the numerous cases of poor management and misuse of resources, lack of transparency in procurement, inflated expenditures on goods and services, non implementations of auditors reports, lack of adequate accounting records, poor budget utilization, funds manipulations and some times direct embezzlement of funds. Such inefficiency are a resultant effects of the increased level of funding channeled through microfinance which has in effect compromised their autonomy and deflected their developmental goals to suit donor requirements and founder members personnel interests.

1.2. Background of the case study

Pride Uganda regional Africa was established in 1998 current legal status mon. bank financial institution regulated no. institutions mission to create a sustainable financial service network that will increase income and employment and stimulate business growth in Uganda background and main challenges Pride Uganda started its operation in Uganda in December 1995, with Mbarara branch opening in March 1996, in September 1999, the

project was incorporated in to a company limited by guarantee under the name of Pride Africa (Uganda) Limited. In May 2007, the article and memorandum of association were amended a new seven member board reconstituted. The name of the company was also changed to promotion of the rural initiative and developed enterprise (Uganda) Limited with the acronym Pride Uganda. Our main challenge is to maintain a competition among MFIs continues to increase to conform to Uganda regulatory standards and transformation into a licensed MFI products group guarantee and individual loans.

1.3. Statement of the problem.

The operations of microfinance in Uganda have recently been characterized by the problem of cash flow management for the resources channeled through them. Microfinance operations in Uganda have more often been characterized by ineffective and inefficient operations, non-compliance with laws, regulations, policies and unreliable, inaccurate and incomplete financial reports resulting from weak and non-existent internal control systems.

These have resulted in to numerous cases of poor management and misuse of resources, lack of transparency in procurement, inflated expenditures on goods and services, non implementations of auditors reports, lack of adequate accounting records, poor budget utilization, funds manipulations and some times direct embezzlement of funds. Basing on the above, the researcher was prompted to investigate the impacts of internal control systems in Microfinance specifically Pride Microfinance.

1.4. Purpose of the study.

This study was carried out to evaluate internal controls on cash flow management in pride microfinance limited. Therefore the system of internal control is designed to manage risks to reasonable level rather than to eliminate all risks of failure to achieve policies, aims, and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritize the risks to the achievement of microfinance policies, aims and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized and to manage them effectively, efficiently and economically

1.5. Objectives of the Study

The aims of the study are:

1. To find out the existence of an internal control system on cash management in Pride Microfinance Limited.
2. To investigate the effectiveness of the internal control methods on cash management in Pride Microfinance Limited.
3. To suggest recommendations on the improvement of internal controls on cash management.

1.6. Research Questions

To achieve the above objectives, the study will be guided by the following research questions.

1. What are the internal control systems on cash flow management in Pride Microfinance?
2. How effective are its controls on cash management?
3. What can be done to improve on the internal controls on cash management?

1.7. Significance of the study

The findings can enable the management of Pride Microfinance Limited to identify the weakness in their internal control system on cash management and also equip them information on how best to utilize internal controls on cash management to ensure proper management of the company's funds.

Managers and directors of various entities, especially those engaged in similar operations will have the necessary information to improve cash management in their entities.

This study is expected to stimulate further academic interest and will provide information for further research on the topic and also to other decision makers.

1.8 The Scope of the Study

1.8.1 Study scope;

The research covered the internal control systems on cash flow management, governing the operations and activities of Pride Microfinance in various departments of the company such as internal audit, accounts department, finance department, purchasing and procurement department, marketing department and personnel department.

1.8.2 Geographical scope;

The study focused on Pride microfinance limited, which is the head office and located on Metropole House, Plot 8-10 Entebbe Road, Kampala.

1.9. Conceptual Framework

Influencing factors

intermediate

influencing

Documents

Factors

Factors/Human

Receipts
Identity Cards
Signs /signatures

- Computers
- Safes
- Stationary

- Skills
- Experience
- Numbers
- Training

Cash flow management

Failures

-Frauds
-Embezzlement of funds
-Miss-use of resources

Success

- Growth
- Profitability

The independent variables here is considered to be determinant factor which affects the impact of internal controls on cash flow management. Thus if influencing factors such as receipts, identity cards, signs and Human factors like skills, experience, numbers and Training in relation to intermediate factors do not coordinate then the organization management will fail.

However, if the influencing factors and human factors in relation to the intermediate factors coordinate then it will result into organization success in the internal control

CHAPTER TWO

LITERATURE REVIEW

2.1 Introductions.

This chapter reviews the relevant literature pertaining to internal controls and mainly covers cash controls and how forms of cash mismanagement can be manifested. Several authors have defined internal control systems differently;

According to Millichamp (1996), the term internal control system refers to the whole system of controls, financial and otherwise, established by management in order to carry on the business or the enterprise in an orderly and efficiently manner, ensure adherence and management policies, safeguard the assets and ensure as far as practical The completeness and accuracy of the records.

According to Swamy (1994), states that an internal control system comprises firstly, the control environment, being the overall attitude, awareness and action of directors and managers regarding the internal control systems. And its importance in the entire and secondly, control procedures, which are policies and procedures in addition to the control environment established to achieve the entity's specific objectives.

2.2 Methods of internal control.

There exist a variety of internal controls and for effective management and eventual achievement of an organization's objectives all of them should be performed effectively and be incorporated in the system. Internal control systems extended beyond matters directly related to the function of accounting systems, and the environment affects their effectiveness

2.2.1 Organization.

Accordingly, an organization should have a plan, which should define and allocate responsible officials. An enterprise should also have and identity the lines of reporting, for proper communications of the delegation of authority and responsibilities and nobody should override the system. Hence controls can best be implemented by the use of an organization chart. Which defines various obligations? (Emile 2004, Swamp 1994)

2.2.2 Segregation of duties.

This calls separation of the functions of initiating, authorizing execution, custody and recording, where by business operations are organized that two or more employees are required to participate at every transaction, the possibility of fraud is reduced and the work of one employee gives assurance to the work of another. It is described that no one person or department handles a transaction completely from beginning to end, as this reduces the chance of employee services to verify that of another, ensuring that errors are detected promptly. (Lawrence 2001).

2.2.3 Authorization and approval.

The transactions of the business enterprise all must be authorized and approved by the responsible officials whose limits of authority and approval match such transaction being approved or authorize. (Millichamp 1996).

2.2.4 Arithmetic and accounting.

These are controls in the recording function, which check that transactions have authorized, that they are all included correctly recorded, and accuracy processed. Some of the procedures, accuracy of the records, the maintenance and checking of totals, reconciliation, control account trial balance and sequence checks. (Emile 2004).

2.2.5 Physical restrictions.

Control of this kind aims at limiting accessibility of entities assets to the only authorized persons in particular time. Serves a strong protective measure in safeguarding organizations assets, process and the data. The physical control methods in the case include, strong rooms and safes, security guards, chequebooks involves, fences lockers and serialization of vouchers. (Kinney 2000)

2.2.6 Management;

According to Millichamp (1996), these are controls exercised by management, which is outside, over and above the day- to-day routine of the system. They include overall Supervisory controls, review of management accounting internal audit and other

procedures. Senior management must be aware of the day- to-day activities of the company and be seen by staff to be so. Management accounts should be designed to summarize performance in detail, management, to determine departure from intended plans should like budgeting and variance analysis.

2.2.7 Personnel.

Any internal control system regardless of its applicability should be operated by Personnel who are of desirable integrity/ authority, competence and capabilities to perform their challenging assignment well. The clear authority and responsibility in written job descriptions and personal manuals need be adhered to accordingly. (Millichamp 1996)

2.2.8 Supervision.

This control concerns the fact that all actions by all levels of staff should be supervised. The responsibility for supervision should be clearly laid down and communicated to the persons being supervised. According to the laid down policies of the organization. This must be done in terms of strong human relations approaches to build up motivation attitudes among the employees and avoid frustration among the subordinates being supervised. (Kinney 2000)

2.2.8 Acknowledgement of performances.

These control procedure requires that the person performing data processing operation should acknowledge their activities by means of signature, initial or stamps as this enables effective evaluation and responsibility to the employees at their working areas. (Lawrence 2001).

2.2.9 Budgeting.

Budgeting is common techniques used in business. Budgets are qualitative plans and can be compared to actual results to investigate differences. The above are the categories of internal control in organizations. Since the environment has an impact on the internal controls of the organization and the environment is subject to change the internal control

systems must be under constant and regular supervision by management to incorporate the changes in the system. (Muheki 1994).

2.3 Internal control measures.

According to milcham (1996), the general measures for internal control include

- An appropriate and integrated accounting system of accounting and records.
- Internal controls over the accounts and records
- Financial supervision and control by management, including budgeting control, management accounting reports and interim accounts.
- Safeguarding and if necessary duplicating records.
- Engaging training and allocating specific duties to staff who are capable of fulfilling their responsibilities

Above and other measures can jointly improve the financial performing of an organization

2.4 Positive impacts of internal controls

2.4.1 Accurate information for internal decision making

The existence of internal control methods is important to the company because it facilitates accurate information for internal decision making in the way that the company makes sure that the control methods is using are understood and analysed by all the employees for effective and efficiency safe guard of the company's assets

2.4.2 Effectiveness and efficiency of operations

Controls within an organization are meant to encourage efficient and affective use of its resources. Therefore the internal control methods should be efficient and effective in safeguarding assets and records of the organization. The physical assets of the company can be stolen, misused or accidentally destroyed unless they are protected by adequate controls. The same is truer for non physical assets such as accounts receivable, important documents and records. Safeguarding certain assets and records has become increasingly important since the emergency of computer systems

2.5 Cash Management.

As large portion of the total transactions of business involved the receipt and disbursement of cash. The control of cash is of prime importance in any business.

Since cash is a component of working capital, its level has an implication on the liquidity, profitability and risks of the organization.

Cash management refers to the policies, rules and regulations designed by management to optimize the use of cash, so as to realize the firm's goals (Sharma 1996).

According to Van Horne (1989), cash management involves managing the monies of the firm in order to maximize cash availability and interest income on late funds. It also involves the formulation and implementation of optimal policies and procedures to monitor. Receipts, payments and balances in order to maximize the benefit of cash to the organization

According to Keynes, (1936), the three motives of holding cash include; the transaction motive, the speculative motive and the precautionary motive. Accordingly, the transaction motive is the need to hold cash to meet the payments resulting from ordinary business transactions; the precautionary motive of holding cash is aimed at maintaining a buffer to meet unexpected changes in prices.

2.6 Internal controls on cash.

According to Pander, (1996) cash management involves all activities, policies and procedures to ensure optimal cash balances, proper cash should therefore focus on the firm's receipts or inflows, payment or out flows and balances.

2.6.1 Internal controls on Receipts.

In an organization fanatical controls regulate the income and expenditure of the business. They take form of budgeting controls and techniques such as programmed evaluation and Review techniques such as programmed evaluation and Review techniques PERT and Periodical reconciliation of cashbook and passbook balance.

2.6.2 Controls on Receipts by post.

The objective of this control is to ensure that all cash and cheques received by post are accounted for and accurately recorded in the books. Measures to achieve this according to ACCA and Sharma include;

Firstly, safeguards to prevent interception of mail between receipts and opening must be strengthened.

Secondly, a responsible official should be appointed and charged with opening of the post. This is important as it ensures safe custody of the cheque and cash in post.

Thirdly; at least two people should be present at the opening of post and all cheques and negotiable instruments should be immediately given a restriction crossing like account payee only, or not negotiable. This safeguards the cheque and reduces the responsibility of manipulation.

Lastly, there should be immediate entry of the details of the receipts, the date, payer and amount in a rough bank or post list of money received. This should be followed by regular comparison of the post list with the banking records in order to ensure proper records.

2.7 Internal control on payment.

Firm's cash outflows take the form of cash bank and other negotiable instruments. All these should be controlled in order for effective financial progress. (Halpern 1983)

The cashier should not be concerned with keeping or writing up books of accounts other than those recording disbursements nor should he or she have access to or be responsible for the custody of securities, title deeds or negotiable instruments belonging to the company.

2.7.1 Controls on payments in the bank.

According to Millichamp (1996), the internal controls should show that all cash and cheques are banked intact all cash and cheques received are banked without delay at prescribed intervals, and that they are accounted for and recorded accurately.

2.7.2 Controls on cheque payments.

According to Sharma (1996), these include strict custody over the supply and issues of cheques. The controls should ensure prevention of unauthorized payments being made from bank accounts.

Preparation of cheques should be restricted where the person who prepares cheques is not a signatory and where cheques signatories are not responsible for recording payments segregation of duties as regards custody, recording, and initiation of cheques payments and other payments is of great importance and must be ensured.

2.7.3 Controls on cash payments.

As controls over cheque payments are easier to establish and maintain Senyonga (1994), business should try as much as possible to conduct all their cash transactions by means of cheques and limits on cash disbursements in this respect must be set.

2.8 Internal controls on balances.

The internal control system should ensure the prevention of misappropriation of balance held. Therefore a firms balance may be inform of cash or bank balances.

2.8.1 Cash balances.

The objectives of controls on cash balances are to ensure prevention of misappropriate or of unauthorized cash payments being made. Controls on cash balances include: the appointment of officials responsible for cash balances this works with the imprest system, depending on the rules of reimbursement only against approved vouchers. The restriction on payment out of cash received is essential at this point.

There should be strict rules on authorization of cash payments and an independence cash court should check this on a regular and surprise basis. Arrangements of security measures for the custody of cash outside office hours and safeguarding cash in transit including the use of safes and restrictions of access, and insurance arrangements for cash balances should also be put in place.

2.8.2 Bank balance.

Internal controls on bank balances ensure the prevention of learning and landing and the misappropriation of bank balances. Bank reconciliation should be done at prescribed intervals. This is done to compare the actual bank transaction with bank balances. Reconciliation should be done by an independent personal and the work should include comparison of debit and credit entries, test of details on pay in slips, unusual items like dishonored cheques among others. The balances at bank should be independently verified with the bank at regular intervals and a bank statement obtained the sequence of cheques numbers must also be analyzed.

2.9 The negative impacts

Internal control system can only provide management of an entity with reasonable assurance that their objectives are reached because of their inherent impacts.

According to Kamal (2004), the possibility that a person responsible for executing an internal control could abuse that responsibility by overriding an internal control. A system of internal check may be ineffective where the checks are not carried out or where individuals do them incompetently or where fraud occurs in items not checked, for example not ensuring that the latest amount of cash is banked so as to detect remaining and lading fraud hence affecting the operation of internal control systems in the company.

According to Millichamp (1998), The usual requirement that the cost of an internal control is not disproportionate to the potential loss, which may result from its absence, hence controls that are not cost effective may be ignored.

According to Saleemi (1999), Most systematic internal controls tend to be directed at routine transactions, staff may exploit this, in the way that, they will change the figures of the transactions taking place.

According to Roma Swamy (1994), The potential for human error due to carelessness distractions, mistakes of judgments and the misunderstanding of instruments for example

when one is hired also affects the internal control systems of the company because the employees may not be in position to use them.

The possibility of circumvention of internal controls through collusion with insiders or outsiders; for example accepting under-deliveries of items.

2.6 Evaluation of internal controls.

According to Millichamp, the evaluation of internal controls is done by performance of an audit. According to statements of auditing standards (SAS), there are two elements of controls, the control environment and control procedures. According to the control environment encompasses the management style and corporate culture and values shared by all employees. Thus it provides a background against which other controls are operated.

Summary.

Having analyzed internal control on cash management it is worth noting that the system of internal control varies from entity to entity depending very much on the size of the enterprise, its business, and the type of transaction involved. It is therefore up to the top management of an entity to apply the basic principles of good internal control in devising a system appropriate to the particular entity, bearing in mind the limitations of internal control.

CHAPTER THREE

METHODOLOGY

3.1 Introductions.

This chapter describes the methodology employed in the study, providing descriptive information on the methods and instruments of data collection, processing and analysis. It specifies the area in which the study was conducted, describes the research population, research, procedures and the problems encountered during the study.

3.2 Research design.

The research was designed to enable quick and efficient collection of relevant information. A descriptive survey design was considered the most appropriate by the researcher as it enabled the researcher to collect as much information as possible from the company, both officially and at a personal level.

3.3 Sample and sampling design.

3.3.1 Target population.

Population is the group of people, units or items under investigation. The researcher is going to be limited to company staff, mainly employees in finance/accounts departments. Other departments in the company were also consulted although on a smaller scale.

3.3.2 Sample size.

Thirty-five employees from Pride Microfinance Limited were chosen as representatives' samples. The departments, which the researcher will include, are as follows, top management, internal auditor, account departments, finance departments, purchasing and procurement department marketing department and personnel department.

3.3.3 Sampling design.

Thirty-five employees were chosen using a combination of random and purposive Sampling. A sample representative of top management, middle- level managers and junior staff from various departments were purposely selected while ensuring that the most respondents were selected from the higher number of respondents.

3.4 Data collections.

3.4.1 Sources of Data

The data for the study comprised of both primary and secondary data.

Primary data

The primary data was obtained through the use of Questionnaires, interviews and general observation.

Thirty- two questionnaires were distributed to the various departments in the company. Each one of the heads of departments were requested to respond to one and the rest were randomly distributed.

The country Manager, the internal auditor and the chief accountant were interviewed. Speed, segregation of duties, record keeping, accuracy, discipline, general response to work and also the general trends of events was observed.

Secondary data

This is data that has been already collected and it has already passed through the statistical process. It can be sourced from Newspapers, Journals, Magazines, textbooks and Internet.

Secondary data was also drawn from accounting manuals records and also from the company's annual reports. The annual reports including the audit reports, profit and loss account records and balance sheet records.

3.4.2 Data collections instruments

Questionnaires

This is a method of data collection, where a questionnaire is sent to the persons concerned, with a request to answer the questions and return the questionnaires. Although there are two forms of questionnaires, that is open-ended and closed-ended, the researcher used open-ended because it is more convenient.

Therefore questionnaires were distributed amongst respondents to collect data. The questions were designed in such away that general information on cash flow management can be generated from various respondents, establish the existence of an internal control system and evaluate the effectiveness of the internal controls on cash flow management in the company.

Interview guide method

This is a method of data collection where the investigator or the enumerate is brought in to contact with the respondent and asks him or her questions about the subject under study. The method can be used in two ways that is face-to-face and telephone interviews.

Therefore the interviews were carried out with the top managements of Pride microfinance limited and heads of departments. The selected questions from the questionnaires were used as an interview guide. They were very effective, as they enabled the researcher to obtain more detailed information and also observe company procedures.

Observation check list method

Under this method, the information is sought by way of the investigators or the enumerator's own direct observation without asking the respondents or the sampling units of interest. Observation is done in two ways that is passive and participative.

Therefore the researcher observed the activities taking place in the company then collected and recorded the essential information needed for the research work.

3.5 Data processing and analysis.

The data collected was compiled and edited to ensure that there are no errors. It was then sorted and re-arranged into special category groups according to the source from which it was collected.

The data was analyzed using Microsoft excel, with the aim of providing answers to researched questionnaires. The write- up of results was then done using Microsoft word.

3.6 Constraints during data collection.

Time was a major constraint. The researcher has other deadlines to meet for example, the demands of course works, preparations for examinations.

The research was costly. The researcher had to spend a lot of money in the typing, photocopying, printing of the work and also costs involved in transportation while looking for the information.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1. INTRODUCTION

This chapter presents the findings of the study with the aim of providing answers to the research questions and an interpretation of each of these findings in light of the research questions. The research consisted of 35 questionnaires of which all were received or returned by respondents out of 35 respondents majority were male with 65.7% and few female consisting of 34.3% .

The findings also indicated that most staffs have gone through different levels (or) positions in line with organization structure. This position included top management, middle level management, low manager and junior staff (from top to bottom) The findings further indicated that the organization had few people on top management with 9% and most of the people at junior level consisting of 74%

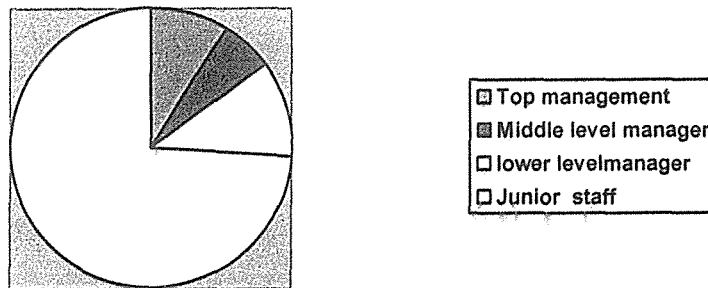
Table 1: Position for respondents

Initial designation	frequency	Percentage
Top management	3	9
Middle level manager	2	6
Lower level manager	4	7
Junior staff	25	74
Total	35	100

Source: Primary data from the employees of Pride Microfinance Headquarters

From the results above, it indicates that the major of the staff was at junior level with 74%.

Figure 1: Position of respondents



Source: Primary data from employees of Pride Microfinance Headquarters

4.2. Findings on the existence of internal control systems

4.2.1. Organization

According to the findings, most of the respondents interviewed indicated that the organization had many control systems such as meetings, Communications and review of activities on weekly basis. The managers in the organization are the signatories to many activities that take place in Pride Microfinance Limited. These activities include loan awarding, customer care, receipting. In Pride Microfinance Limited, heads of departments are assigned responsibilities to their respective departments. They act as team leaders and review the performance of their members regularly to [promote efficiency and effectiveness.

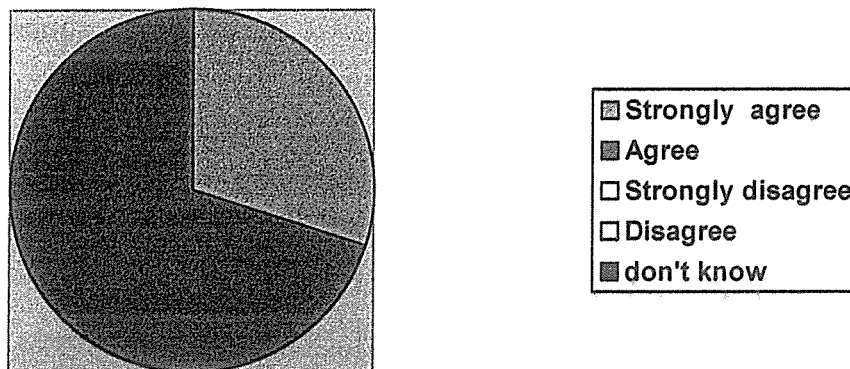
Table 2: The reporting and communication procedures

Response	Frequency	Percentage
Strongly agree	8	33
Agree	27	77
Strongly Disagree	-	-
Disagree	-	-
Don't know	-	-

Source: Primary data from employees of Pride Microfinance Headquarters

The findings above indicate that most of the respondents agree that there exist reporting and communication procedures in their organization consisting of 77%.

Figure 2: The reporting and communication procedures



Segregation of duties

Table 3: Response to the segregation of duties at each stage of transaction

Response	Initiation		Authorization		Execution		Recording		Custody	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
Strongly agree	15	43	17	48	6	17	2	6	-	-
Agree	16	47	16	46	7	20	11	3	3	6
Strongly Disagree	-	-	-	-	9	25	46	18	18	52
Disagree	-	-	-	-	10	30	11	14	14	39
Don't know	4	10	2	6	8	2	2	6	2	3

Source: Primary data from employees of Pride Microfinance Limited Headquarters

According to the investigation, it shows that at the initiation stage of transaction 43% of the respondents strongly agree and most of the respondents consisting of 47% agreed and 10% of the respondents simply did not know whether initiation stage of transactions existed.

Findings also indicated that 48% of the respondents strongly agree that authorization stage of transaction do exist, 46% simply agree to the same and 6% did not know about authorization stage of transaction.

The study shows the most of the respondents consisting of 30% disagreed about recoding duty at each stage o transaction consisting of 18%.

The research also shows that majority of respondents also strongly disagreed with custody has a duty, as one of the stage of transaction with 52%.

The interviews response from management indicated that whereas the separation of functions is a major weakness in the company, it is one of management's priorities today. More findings show that for detailed records, the cashier was responsible for receiving all sums from net customers, recording and banking; these functions have now been separated.

The findings further indicated that the response about disbursement, the accounts assistant prepares the necessary paper work, the chief accountant clerks and the financial managers are the final signatories to authorize payment. This is appositve step towards the separation of functions

4.2.2. Authorization and approval

Table 4: Authorization and approval of transactions

Response	Frequency	Percentage
Strongly agree	3	33
Agree	14	43
Strongly Disagree	-	-
Disagree	12	34
Don't know	6	17

Source: Primary data from employees of Pride Microfinance headquarters

According to the findings above, it indicates that most of the respondents agreed that authorization and approval of transactions is done by responsible personnel with 43% while 17% were non-committal. This indicates the existence of the controls although there is need to enlighten the 17% who do not know of its existence.

Figure 3: Authorization and approval of transactions



Man Power

Table 5: Job description (job Analysis)

Response	Frequency	Percentage
Strongly agree	17	49
Agree	4	11
Strongly Disagree	3	9
Disagree	11	31
Don't know	-	-
Total	35	100

Source: Primary data from employees of Pride Microfinance limited Headquarters

According to the findings above obtained through interviews with the human resource manager, it shows that there are many control systems with company such as job description (job analysis) with 49% however; some few respondents felt that job description was not fairly carried out in their organization with 9% strongly disagreeing.

Figure 4: Job description (job analysis)

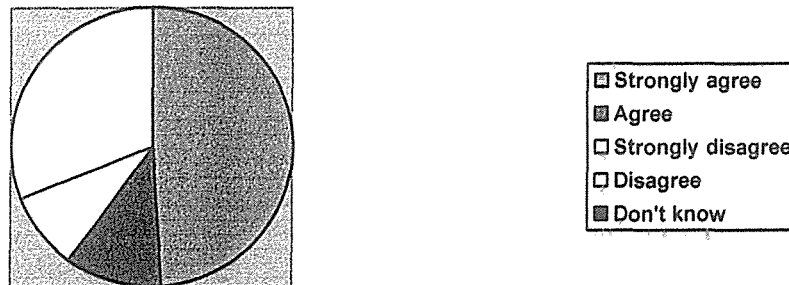


Table 6: Period spent as an employee of Pride Microfinance

Response	Frequency	Percentage
Under one year	1	3
1-2 Years	27	77
2-5 Years	7	20
Over 5 Years	-	-

Source: Primary data from employees of Pride Microfinance

The research above indicates that most of the respondents had experience of 2 to 5 years with 77% and 20%

4.3. Findings on the effectiveness of internal controls on cash

4.3.1. Receipts

According to the findings, it shows that the restriction on receipts of cash and cheques due to the organization is essential. The proper recording of receipts with the use of cash registers and serial numbers forms is done by the responsible person.

Table 7: Response as regards to proper recording of receipts

Response	Frequency	Percentage
Strongly agree	21	60
Agree	7	20
Strongly Disagree	-	-
Disagree	-	-
Don't know	7	20

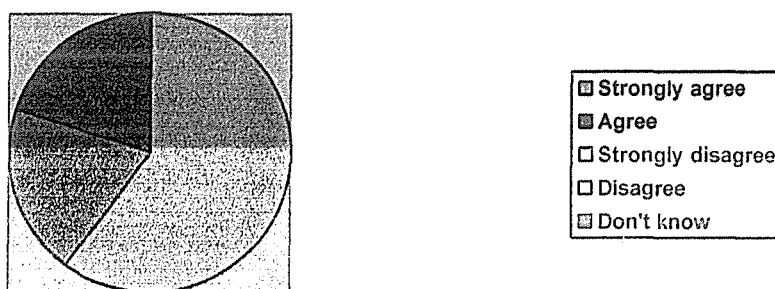
Source: Primary data from employees of Pride Microfinance headquarters

Findings also indicate that 60% of the respondents strongly agree that receipts are properly recorded while 20% of the respondents were non-committal. It was discovered that all receipts are recorded in triplicate; whereby the customer receives a copy, finance department gets one and the cashier keeps the third copy in order to limit fraud and corruption practices.

Findings further revealed that the duties of receiving cashiers in regard to recording function; other than those recording disbursement are limited in line with this, it was discovered that the cashiers have access to records, this is a major weakness as it makes manipulation of records easy.

The study also indicated that the banking procedures of receiving is properly done by the responsible signatories

Figure 6 : Showing response as regards to proper recording of receipts.



4.3.2. Payments

According to the investigation, most respondents agreed that most payments are made by cheques and it is mainly small terms that are paid out of company's cash. It was further discovered that, it is company policy to pay any amount exceeding fifty thousand Uganda shillings by cheques.

Table 8: Response of the safety of cheques

Response	Frequency	Percentage
Strongly agree	16	49
Agree	19	54
Strongly Disagree	-	-
Disagree	-	-
Don't know	-	-
Total	35	100%

Source: Primary Data from the employees of pride Microfinance Headquarters

Findings indicate that most respondents agreed that there is strict custody over the supply and use of cheques and prompt dispatch of signed cheques is ensured with 54%. It was further discovered that there are two signatories to the accounts therefore no staff supplier, individual is paid without authorized signatories, and this tries to limit fraud, corruption and embezzlement of funds.

The researcher found it necessary in the line with the study question to assess the procedures of preparing payments

Table 9: Existence of strict procedures in the preparation of cheques payments

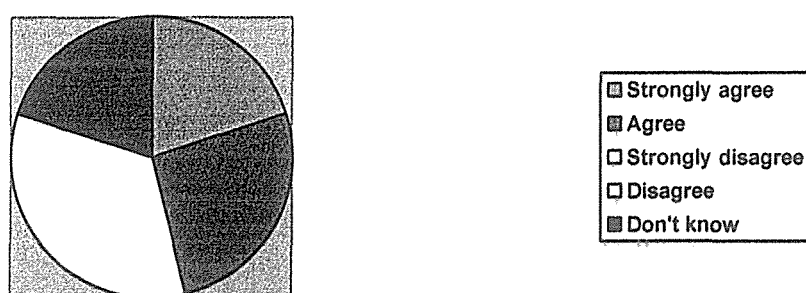
Response	Frequency	Percentage
Strongly agree	7	20
Agree	9	26
Strongly Disagree	12	34
Disagree	-	-
Don't know	7	20
Total	35	100%

Source: Primary data from the employees of Pride Microfinance

The findings above indicate that most of the respondents strongly disagree to the existence of strict procedures in the preparation and signing of cheques with 34%, 20% strongly agree, 26% agree and 20% were non-committal. This indicates that these controls are almost non-existence as a considerable number of respondents are not even aware of the existence of these procedures.

The study shows that in certain cases a cheque is signed and issued without prior record. A cheques requisition should for example be raised, signed by the person who has raised it and authorized, after comparing the details of the cheques requisition with the invoice a cheques can then be prepared and signed by two authorized signatories

Figure 7 : Existence of strict procedures in the preparation of cheques payments



4.3.3. Balances

Table 10: existence of independent cash counts on a regular or surprise basis

Response	Frequency	Percentage
Strongly agree	-	-
Agree	3	9
Strongly Disagree	-	-
Disagree	23	66
Don't know	9	25

Source: Primary data from the employees of Pride Microfinance headquarters

Findings show that most respondents disagree on the existence of independent cash counts on a regular or surprise basis. This indicates a major weakness of the control system while 9% agrees 25% were non-committal.

Table11: Security of cash outside office hours and in transit

Response	Frequency	Percentage
Strongly agree	6	17
Agree	10	29
Strongly Disagree	12	34
Disagree	7	20
Don't know	-	-
Total	35	100%

Source: Primary data from the employees of Pride Microfinance headquarters

The investigation indicates that 34% of the respondents strongly disagree on the existence of strict security of cash outside the office hours and in transit, whereas 29% agree about the same.

The study also shows that regarding bank balances, bank reconciliation with bank balances is carried out by an independent person from the internal audit department

Findings further indicate that bank balances are independently verified at regular intervals and bank statements obtained from the above analysis the internal control system in Pride Microfinance Limited are weak and the internal controls on cash although existent are inefficient

Figure 8 : Security of cash outside office hours and in transit



4.3.4 Identification of individuals

According to the study, most respondents interviewed indicate that the organization has different computers connected to the cameras using lines in every corners of the building

in order to monitor individuals coming in or going out plus the transactions being carried out, which is normally done in the same security departments by the responsible le personnel.

Table 12: Identification of individuals

Response	Frequency	Percentage
Strongly agree	21	60
Agree	7	20
Strongly Disagree	-	-
Disagree	-	-
Don't know	7	20
Total	35	100%

Source: primary data from employees of pride Micro finance Headquarters

The findings also revealed that 60% of the respondents agree that there is proper identification and monitoring of individuals activities in the bank such as banking, receipting which is normally done by the security departments to ensure security in the bank and the people's money whereas 20% were non-committal about this

Figure 9 : Identification of individuals.



4.3.5. Cheque books

According to the respondents, the majority of them strongly agree about the existence of restrictive monitoring and analysis of cheques books which is done through checking for the amount of money, date, serial numbers, signatories of company, code numbers of particular banks which is carried out by the responsible person with 65% strongly agreeing whereas 29% were non-committal about the same and this shows the existence

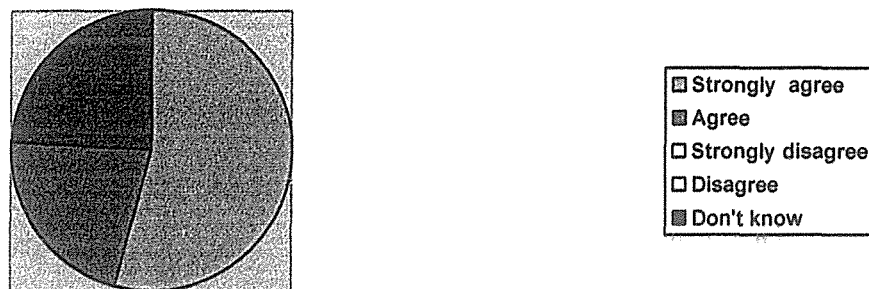
of controls which limits the practice of fraud, corruption, embezzlement of funds by individuals hence their effectiveness

Table 13: Monitoring and analysis of cheque books

Response	Frequency	Percentage
Strongly agree	26	65
Agree	7	26
Strongly Disagree	-	-
Disagree	-	-
Don't know	3	29

Source: Primary data from the employees of Pride Micro finance Headquarters

Figure 10 : Monitoring and analysis of Cheque books



4.3.6 Cash withdraws

The findings indicated that most of the respondents interviewed indicted that there are mainly two ways of cash withdraws, that is people can use countants by directly going to the tellers (cashiers) and the withdraws are done in the form of cash, there is also use of ATM (Automated Teller Machines) where by people enter their PIN codes, cards and amounts of money is sent, if its not enough the sheet of paper is sent indicating the person's bank balance, hence this shows effective control systems are in the bank.

4.4 Mitigation measures in place

4.4.1 Signatories

The researcher revealed that the person issuing and the one receiving the receipts have to sign as evidence that the amount indicated is correct then payment should be done and this helps the organization to overcome the practices of fraud, corruption and embezzlement of funds which is normally done with blank cheques

4.4.2 Net working

The findings indicated that the computers are linked to one another in the form of networking so that the same information is accessed by every individual in the department such as accounts department, purchasing and procurement department, human resource department, audit department to mention but a few in the organization. This helps the company to get suggestions ideas about the same information from different individuals and after words analysis done in order to improve on the activities of the organization.

4.4.3 Access of information

The investigation shows that access to information of the company or individuals was only possible after getting permission from the reliable or responsible le personnel. The individual requesting for that information can only put it in writing and then sign under it. For example access to the information about particular contacts by the internal auditors sign, some where to s how that he has taken the files thus the effectiveness of internal control systems.

4.4.4 Valid identity cards

The study shows that the individuals have to possess the valid identity cards for the purpose of identification while at the bank and in case they want to withdraw some money from the bank because this identity card normally certain information about the individuals such as individuals name, position at work, holders signature and the name of the company they are from hence effectiveness of internal control systems.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1. Introduction

The purpose of the study was to evaluate internal control on cash management in Pride Microfinance Limited with the view of suggesting recommendation

This chapter presents a summary of the findings, conclusions and recommendation on the control system in Pride Microfinance Limited.

5.2. Summary

The research is organized in five chapters as summarized below;

Chapter one covers the introduction, which includes the background to the study, background of the case study, statement of the problem, purpose and objective of the study, research questions, significance and scope of the study.

Chapter two reviews the literature on internal control, specifically cash controls and their importance in an entity, the control measures available and the impacts on the organization which is both positive and negative

Chapter four covers the findings and discussions got from the respondents regarding internal control systems that exist in their organization in relation to the research questions

Chapter five contains the summary of the study, the conclusion drawn and recommendation on the improvement of internal controls, suggested areas for further research and finally the references and appendices.

5.3. Conclusion

The study set out to investigate the impact of internal controls on flow management of Pride Micro finance Limited (U), from the results obtained it can be concluded that internal control systems exists and they have a role to play in Figure 7 (Response as regards to proper recording of receipts) where by 60% of the respondents strongly agree that receipts are properly recorded while 20% of the respondents were non-committal.

All in all internal controls have positive impacts such as effectiveness and efficiency of operations, accurate information for internal decision making minimizing fraud and the negative impacts like abuse of responsibility by overriding an internal control, potential for human errors due to carelessness, distraction, mistakes of judgments and the misunderstanding of instruments.

However, there are mitigation procedures that the organization needs to put in place such as the signing of receipts by the person giving it and the one receiving it, networking, accessibility to information should be restricted and the use of valid identity cards for the purpose of identification while at the bank and withdrawing money. When all this is achieved it indicates that internal controls in an organization met its objectives.

5.4. Recommendations

These recommendations are aimed towards the improvement of the internal control system in place and the successful implementation of the controls on cash management.

- Firstly, it is necessary to carry out an awareness programme on the importance of an internal control system mainly for top and middle level managers and also ensure their awareness of the day-to-day activities of the company this involves the review of management accounting, the overall supervision controls and all management controls
- Pride Microfinance should ensure the segregation of duties at all stages of a transaction, as this will reduce the possibility of fraud and the detection of errors will be made easier as the work of one employee will give assurance to that of another.
- As the objectives of internal control are aimed at ensuring a proper accounting and information system to enable the organization achieve its objectives both the internal audit and accounts department are important and should be strengthened. The strengthening of the accounts department will ensure the accounting and correcting of these records.
- Staff development is essential and should be carried out as shown by the findings the level of motivation and staff appraisal are low and an employee-employer relationship is almost non-existent. The persons operating the system must be capable of maintaining the system and should be competent and motivated to carry out the task assigned to them, since the proper function of the system depends on the competence and integrity of the personnel.
- Pride Microfinance should ensure the supervision of all actions by levels of staff. Additionally, the acknowledgement of performance of an operation by signature or initials should be assured. Thus will enable effective evaluation and responsibility
- The company's organization plan should be developed further to define and allocate responsibilities to specified responsible officials
- Policies to ensure safety of company assets, records should be strengthened and maintained to reduce the rampant cases of fraud and mismanagement.

Areas of further research

It is not that companies are unaware of the importance of an effective internal control system, it is however that they face difficulty in the successful implementation of internal controls. Further research could therefore be done to establish the factor affecting the successful implementation of an effective internal control system and solutions to this.

REFERENCES

Byaruhanga Allan (1994) "*Internal Controls and their Role in Cash Management*, A Case Of Universe Motors Limited.

Halpern, Weston, Brigham. (1983) "*Essentials of Canadian Managerial Finance*" 2nd Edition Holt Rinehart and Winston of Canada Limited.

Kamal Gupta (2004), "*Fundamentals of Auditing*" 4th Edition Published by Tata McGraw hill publishing company limited, New Delhi

Lawrence Tomassini, Jim Sepe, David Spice land (2001) "*Intermediate Accounting*" 2nd Edition, McGraw-Hill, America, New York

Malingn Alex (1996) "*Evaluation of Internal Control in then Uganda Public Section*, Kampala Uganda

Millichamp Alan (1996) *Auditing* 7th Edition Letts Educational, international Thomson Publishing, United States of America

Nisar Ahmad Saleemi (1999) "*Auditing and Investigation Simplified*" 3rd Edition Published in Nairobi, Kenya

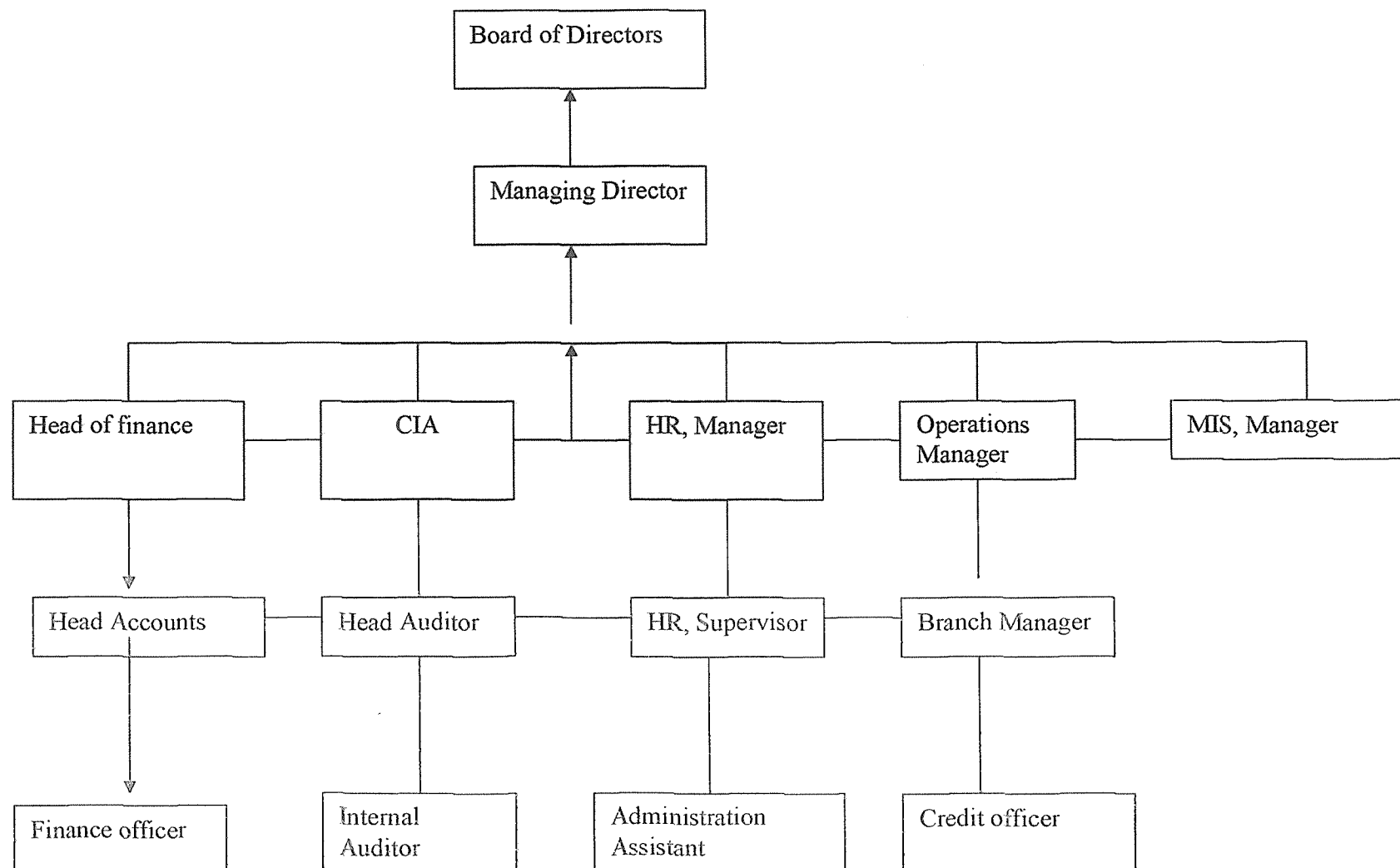
Pandey I.M (1995) *Financial Management* 7th Edition Vikas Publishing Hosue PVT.

Roma Swamy M.S (1994) "*Auditing*" 4th Edition R. Chard and C. New Delhi, China

Senyonga Paul. (1994), *Evaluation of Internal Controls in Public Parastatals*, Kampala Uganda

William Kinney, (2000, *Information Quality Assurance and Internal Control for Management Decision Making*, Milan New Delhi, Seoul Singapore, Sydney, Taipei Toronto

APPENDIX I
ORGANIZATION CHART



APPENDIX 2
INTERNAL CONTROL QUESTIONNAIRE
THE CASH SYSTEM
PRIDE MICROFINANCE LIMITED.

You are kindly requested to spare time off your busy schedule to respond to the questions below. Your answers will be held in almost confidentiality.

1. Name of the respondent (optional)

.....

2. Sex

Male ☐ Female ☐

3. Position of the respondent

.....

4. Department

.....

5. Highest level of education (please tick () as appropriate)

Primary ☐ secondary ☐ diploma ☐ degree ☐

Other ☐ (please specify)

6. Period spent as an employee of the company.

.....

.....

Please indicate with a tick () to what extent you either agree or disagree with the following statements.

7. The organization has an internal audit department/ section.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

8. The organization has written policies and procedures for all its operations.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

9. There is relative independence of persons involved at each stage of a transaction

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

10. All cash due to the organization is received by authorized personnel

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

11. All cash received in 10 above is properly recorded.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

12. People who receive cash are different from those who record cash receipts.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

13. There are regulations sufficient to bank accounts personnel access to custody of cash received.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

14. All cheques and proceeds of cash sales are held in locked drawers and access to these is limited.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

15. Totals of cash received are balanced against general and subsidiary ledger records, and related credits to sales accounts receivables or other accounts as appropriate.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

16. All disbursements are duly authorized by officers in charge of finance.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

17. The company has an established internal leading system ("I owe you").

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

If your answer above is agree, please state who authorizes these payments and limits allowed both in terms of amount in time

.....
.....

18. All cheques disbursement is duly signed by authorized personnel.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

b) There are limits on disbursements.

Strongly agree ☐ Agree ☐ Disagree ☐ strongly disagree ☐
Don't know ☐

